THE ANALYSIS OF THE RELATIONSHIP BETWEEN MANAGEMENT CONTROL SYSTEM AND FINANCIAL PERFORMANCE OF SMALL FIRMS

MANSYUR SAIN, AGUS BANDANG
Hasanuddin University, Indonesia

ABSTRACT

The relationship between management control system and financial performance has been examined in several management accounting studies with inconsistency result. Prior studied based on data from larger companies or their sub-units. Small business studies have been rare-at least based on their number of published studies.
The purpose of the present study is to analysis the relationship between management control system and small firm's financial performance in a contingency theoretical framework. In this study, we analysed deeply the results of prior researchs in the relationship between management control system and small firm's financial performance. Specially for Indonesian context, we analysed the results of study which have done by Indonesian Researchers which used data from small firms in South Sulawesi Indonesia.
The results of this study for Indonesian (South Sulawesi) context, suggest that the use of MCS seem to have only e few positive effect on small firm's financial performance. The external environment did not influence small firm's financial performance. The pursued strategy seems to drive small firm's profitability and growth in net sales. The small firms do use a wide range of MCS practices, information and by using a more diversified management team seems to increase the use of MCS practices and information.

Keywords: Management control system, financial performance and small firm.

INTRODUCTION

Although the research on current management accounting practices and MCS has been comprehensive, their empirical evidence has almost totally been based on data from larger companies or their sub-units. Small business studies have been rare – at least based on their number of published studies as pointed out by e.g. McMahon (2001), Mitchell and Reid (2000), Luft and Shields (2003) and Reid and Smith (2002). The mainstream of the research in MA seems to concentrate on the middle range of organizational size (Luft and Shields 2003). Typically, if small firms have been included in these studies, and for example, not been discarded as outliers, researchers seem rather to have been more interested in the effects of size variation within larger organizations or between size groups of firms (i.e. small, medium and large) than in the small businesses as such or possible variation among firms in this size group (Chenhall2003, Luft & Shields 2003, Mitchell & Reid 2000).

Nevertheless, some studies on MCS in small businesses have been conducted, but the designs and focuses of these undertakings have varied . For example, Reid and Smith (2000, 2002, see also Nayak and Greenfield 1994) have studied the use of management accounting techniques of small UK micro firms with less than ten employees; Gul (1991) has revealed the interaction effect of MCS and perceived environmental uncertainty on managerial performance in small firms; Laitinen (2002) has examined MA and its change in small Finnish technology companies; Moores and Yuen (2001) have approached the use of management accounting systems in life-cycle configurations of Australian clothing and footwear firms, albeit using a sample including also larger firms; and McMahon (2001) has analyzed the relation between financial reporting practices, business growth and performance among Australian manufacturing small and medium-sized firms.

Despite a small number of the small business studies in MA, for example, Hicks (1999), Laitinen (1996) and Mitchell and Reid (2000) have stated that modern management accounting practices and sophisticated systems might also be useful for small businesses. Furthermore, although small firms may have different needs than large companies, there is also some

promising empirical evidence, for example, on the possibilities of the Balanced Scorecard as an efficient management tool for small businesses as well (Chow *et al.* 1997, Kaplan & Norton 2001c, 369-370). Laitinen (1996), and Mitchell and Reid (2000) have stressed, practices and systems should not be somehow down sized copies of the ones used in large companies. Nordberg (1997) stated practices and system sought to be tailored to fit the needs of small businesses and their managing directors. However, what are these needs? How should the practices and systems be adapted for the SME's?. Research evidence on the above questions, the current state and nature of small business management accounting practices and their associations with contextual factors like the environment, strategies, organizational characteristics, as well as the role an owner-manager plays in these relationships is very limited (e.g. Chenhall 2003, McMahon and Stanger 1995, Reid and Smith 2000, see also Ittner and Larcker 2001). For example, we do not know very well the answers to such questions as:

a. How widely are new ideas and innovations of Management Accounting already in use in the small business sector or are they at all?
b. What kind of information do managing directors in small firms prefer and use to pursue strategies and strategic priorities of their businesses
c. What are the main factors influencing the designs and use of Management Control System (MCS) in small firms, and how do these factors possibly influence MCS?
d. To what extent are the empirical research results based on large companies on the design and use of MCS consistent with those based on small businesses?
e. Is the possible use of MCS related to firm performance of small firms?

Most executives agree that there is ***no magic formula***……or ***one right measure***…….for evaluating business performance. Therefore, in an effort to capture the essence of business performance, many companies are creating new performance measurement systems that include a broad range of financial and nonfinancial measures,(Bonnie P. Stivers et al 1998).

Drury (2000), Anthony and Govindarajan (2001) stated that the accounting perspective claims that the headquarters increase the intensity of Management Control System (MCS) after the performance has worsened in order to adjust for deviations from planned strategy and operations. On the other hand, an intensified (MCS) assures achieving planned goals and objectives (Egelhoff 1988; Harzing 1999). These two streams in the scientific research make the explanation of the relationship between Management Control Systems (MCS) and performance extremely difficult. Additionally, the data for measuring success of the influences of MCS on the performance has still to be provided (Epstein and Manzoni 2002).

The last trends, including integrated measures (e.g. Kaplan and Norton Balanced Scorecard), suggest for evaluating various management controls. However, the integrated measures make comparisons between companies difficult (Epstein and Manzoni 2002).

This paper analysis the relationship between management control system and financial performance of small firms in South Sulawesi, Indonesia.

LITERATURE REVIEW

The literature review is focused on a view of the relationships between management control system, organizational performance and small firm.

Management Control System.

The earliest definition of MCS was provided by Anthony (1965), according to whom management control is "the process by which managers ensure that resources are obtained and used effectively and efficiently in the accomplishment of the organization's objectives". Anthony's (1965) definition is of slightly narrow nature since it separates management control from strategic control and operational control. Flamholz (1983), on the other hand, emphasis the

behavioral aspect of MCS by arguing that individuals and organizations share only partially congruent objectives why it is necessary to channel human efforts toward a specified set of institutional goals, which inevitably leads to a need for control. The behavioral viewpoint is also supported by Merchant & Van der Stede (2003) who argue that "...management control involves managers taking steps to ensure that the employees do what is best for the organization. This is an important function because it is people in the organization who make things happen…If all employees could always be relied on to do what is best for the organization there would be no need for MCS". In addition, MCS have been conceptualized as formal, information-based routines and procedures managers use to maintain or alter patterns of organizational activities (Simons, 2000). Merchant & Otley (2007) state that "almost everything in the organization is included as part of the overall control system". In aggregate, Malmi & Brown (2008) define MCS as follows:

Management controls include all the devices and systems managers use to ensure that the behaviors and decisions of their employees are consistent with the organization's objectives and strategies, but exclude pure decision-support systems. Any system, such as budgeting or a strategy scorecard can be categorized as a management control system.

As Malmi & Brown (2008) point out, the definition is broader than definitions provided by Anthony (1965) and Simons (2000), since strategic and operational controls targeted at directing employees and other than information-based routines fall inside the scope, respectively. However, the definition is narrower than the ones that take decision support systems into consideration.

Contingency Variables

Chenhall (2003) reviewed the empirical contingency-based literature regarding the development and structure of management control systems. His studied focus to contingency-based theories developed from a functionalist perspective. In other words, the assumption is that management control systems are adopted to assist managers achieve some desired organizational outcome or organizational goals. Each organization has to choose the most suitable system by taking into account some contingency variables such as external environment, technology, organizational structure, size, strategy, and culture. Many empirical studies have been carried out and the literature often calls for an innovative approach (Ittner and Larcker, 1998; Nanni et al., 1992; Shirley and Reitsperger, 1991). Though some non-financial measures are introduced in MCS studies, the majority continue to focus on accounting aspects, and innovative models are not proposed nor are the contingency factors well defined (Reid and Smith, 2000).

The External Environment

The external environment has been identified as an important contextual variable influencing the design of management control systems (Chenhall, 2003). Flamholtz et al (1985) define the external environment as 'the societal context for the organization and its members' indicates that this is a broad concept, and as such has been conceived in numerous ways, including complexity (Duncan, 1972), variability (Amigoni, 1978), hostility, heterogeneity and dynamism (Gordon & Miller, 1976). Each of these elements has been hypothesized to have particular influences upon organizational design, however, in terms of MCS research, environmental uncertainty has been the dominant aspect considered (Chenhall, 2003). To maintain consistency with prior literature, this study will focus on the dimension of uncertainty.

Merchant (1988) relates uncertainty to 'the broad set of factors that, individually and collectively, make it difficult or impossible to predict the future in a given area'. As the level of uncertainty increases, the control function in an organization becomes increasingly difficult (Duncan, 1972), as the ability to predict the relationship between actions and outcomes of organizational tasks is diminished. Under these circumstances, accounting based mechanisms will provide an incomplete set of information (Chapman, 1997). This is consistent with Galbraith's (1973) view of uncertainty as synonymous to an information deficit. In synthesizing

the works of Lawrence & Lorsch (1967), Woodward (1965) and Burns & Stalker (1961), Galbraith (1973) proposes that uncertainty is the fundamental concept underlying the design of complex organizations. While environmental uncertainty has been employed in numerous management accounting studies, its impact upon a broader set of management controls has not been readily considered. This has limited our understanding of what mechanisms may act as substitutes or compliments, and under what conditions they would be suited to.

The external environment is a powerful contextual variable that is at foundation of contingency-based research. Perhaps the most widely researched aspect of the environment is uncertainty. Early contingency research in organization design focused on the effect of uncertainty on organizational structure. Example include Burns and Stalker (1961), Galbraith (1973), Lawrence and Lorsch (1967) and Perrow (1970). The importance of uncertainty as a fundamental variable in MCS contingency-based research has been stressed recently by Chapman (1977) and Hartmann (2000). Both reinterpret aspects of MCS research by examining the impact of environment uncertainty.

The more uncertain the external environment the more open and externally focused the MCS. The more hostile and turbulent the external environment the greater the reliance on formal controls and an emphasis on traditional budgets. Where MCS focused on tight financial controls are used in uncertain external environments they will be used together with an emphasis on flexible, interpersonal interactions

Strategy

The word strategy is derived from the Greek word "strategos," which means army and leading. Initially, the concept of strategy was referred to the leading role of a general in command of army as well as meant for military purposes (Greenly, 1989; and Mintzberg and Quinn, 1991). Strategy is defined as a major action taken or planned by the management of a business organization, considering its resources, skills and environment risks. Corporate strategy usually refers to the product-market choices of the firms (Hofer and Schendel, 1978). Strategy is an important explanatory variable in the design of MCS. Langfield-Smith (1997) and Ittner & Larcker (1997) maintain that management control systems should be explicitly aligned with the strategic direction of the firm. This argument is also supported by Shank & Govindarajan (1993) who write that 'a continuing concern in the design of control systems should be whether the behavior induced by the system is the one that is consistent with the strategy'. It follows that the adoption of various strategies by firms facing idiosyncratic environments and competitive demands will place different requirements upon the control system, resulting in a diversity of MCS arrangements across organizations (Dermer, 1977; Simons, 1990; Otley, 1999). The inclusion of strategy as a variable also addresses the criticism of contingency-based research which has assumed that MCS design is dictated by the organisation's context (Child, 1972; Chenhall, 2003). Langfield-Smith (1997) outlines three generic levels of strategy considered in MCS research; corporate, competitive and operational. However, in the current study only competitive strategy is considered, as the relevant level of analysis is the business unit. This choice also provides greater comparability to prior MCS research, in which competitive strategy has been the principal level of interest (Langfield-Smith, 1997). Business unit, or competitive, strategy relates to the manner in which an individual business unit positions itself within a market and creates or identifies competitive advantages (Langfield-Smith, 1997). A number of typologies have been developed to allow measurement of business unit strategy. In MCS research, strategy has generally been considered in terms of strategic position (Porter, 1980, 1985), strategic pattern (Miles & Snow, 1978) or strategic mission (Gupta & Govindarajan, 1984) of the business (Kald, Nilsson & Rapp, 2000). While each has the potential to influence choice of control systems, in this study only the strategic position of the business unit is analyzed, using the framework of Porter (1980, 1985). This provides consistency with previous MCS research utilizing a systems view of contingent fit (eg Chenhall & Langfield-Smith, 1998; Jermias & Gani, 2004). Porter's (1980, 1985) typology has been operationalised as two generic

strategies that can be followed in developing a sustainable competitive advantage, which are low cost or differentiation strategies.

From MCS research, evidence suggests links between strategy and cost control and to formality of performance evaluation. The studies are focused on strategy at the strategic business unit level, rather than corporate or functional levels. Most of studies explore the association between MCS and strategic typologies. Concerning performance measurement, build compared to harvest strategies, which involve low specialization and difficulty in measuring outcomes, suit more subjective and long-term controls e.g (Govindarajan and Gupta, 1985).

Strategies characterized by conservatism, defender orientations and cost leaderships are more associated with formal, traditional MCS focused on cost control, specific operating goals and budgets and rigid budget controls, than entrepreneurial, build and product differentiation strategies.

According to Simons, (1990, p. 128), "management control systems are the formalized procedures and systems that use information to maintain or alter patterns in organizational activity". Simons (1990, p. 128) further maintained that based on extensive field research, "management control systems are used not only to monitor that outcomes are in accordance with plans, but also to motivate the organization to be fully informed concerning the current and expected state of strategic uncertainties". Thus, strategy is a paramount sub-component in the overall management control framework. The literature provides a number of definitions of the term "strategy". A strategy is a master plan on how an organization intends to compete in its environment and what sort of structure, including coordination and control devices, is required to implement the plan
(Macintosh, 1994, p. 89). Strategy is mainly concerned with the operative goals of anorganization and the problems of achieving them. Wilson (1991, p. 82) defined strategy as "an integrated set of actions aimed at securing a sustainable competitive advantage" (original emphasis). According to this definition, a given strategy in an organization should support the achievement of goals and objectives relative to its competitors. A much broader definition of strategy has been given by Glueck (1980): A strategy is a unified, comprehensive, and integrated plan relating the strategic advantages of the firm to the challenges of the environment. It is designed to ensure that the basic objectives of the enterprise are achieved (p. 9).

As the above definitions explain, a strategy is expected to provide support in the accomplishment of organizational goals in harmony with the organizational environment, both internal and external. Strategy is believed to be the road map for any organizational effort and, thus, the strategy should be given the utmost priority in designing and maintaining an effective management control system. It is with this understanding that Anthony et al. (1984, p. 10) gave a semantic definition of management control as "the processes by which management assures that the organization carries out its strategies". Following this definition, many research studies "built on Anthony's work and that of others by attempting to develop the best way to design and use formal systems to help organizations implement their strategies and objectives" (Simons, 1990, p. 127) and attempted to describe organizational practices in terms of the extent to which they implemented strategies. For example, Teall (1992, p. 31) maintained, "as the ultimate objective of a management control system is to assist in achieving the company's strategy, it is imperative that the company's strategy be explicitly stated".

The Corporate Governance Structure

Corporate governance structure is considered to be the whole set of structures and processes used to guide and control an enterprise (OECD, 1999). Its influence is made explicit in the mutual influence between managerial systems and corporate governance structure (Miller and Toulouse, 1986). Different approaches are applied in corporate governance studies. Most of the papers available use agency theory as a main theoretical background (Zahra and Pearce, 1989).

Two dimensions are often applied to analyze corporate governance: the composition of the board of directors and its role. Board composition refers to the number and type of directors who serve on the board, and the widely recognized dichotomy between inside and outside directors has a significant impact on the decision-making processes. The board composition in SMEs plays a key role; in these companies the presence of inside directors belonging to the entrepreneur's family is quite common and is a decisive factor in the decision-making process. The literature offers a long list of what boards of directors should and could do, but evidence on what boards actually do in SMEs is not yet well documented. With regard to the role of the board of directors, three main roles are recognized by the literature: strategic, control and service roles (Zahra and Pearce, 1989). Some of the main service roles of the board of directors in family companies are the re-balance role, the share support role and the relationship support role. The service roles are mainly adopted where ownership and management overlap.

In order to study corporate governance structure in SMEs, two key dimensions will be considered: the role of the board of directors and the influence of ownership on corporate governance. There are three SME typologies: traditional family company, open family company and managerial company. In a traditional family company capital is held by an entrepreneur or a small group of shareholders belonging to the same family; the decision-making power regarding strategic and managerial issues lies with the owners and the board of directors has a "service role". An open family company is characterized by two main kinds of owners: entrepreneurs that are directly involved in managerial activities and shareholders that pay attention solely to the profitability of the business. The shareholders do not influence the company governance and the board of directors is mainly used to control the management activities, i.e. it plays a "controlling role". A managerial company is owned by shareholders that are not interested in the company's core business; they only check the profitability of their investment. The managerial activities depend totally on the managers and the board of directors, who through formal and informal meetings decide on the company's strategies and objectives, i.e. it plays a "strategic role".

Management Information System

The term "information" means different things to different people. It is and always has been an elusive but important concept, especially in the business world. Many attempts have been made to come up with some sensible and intuitively acceptable definition; up to now none of these have succeeded (Van Rijsbergen and Lalmas, 1996). A management information system is "an integrated structure of data bases and information flow over all levels and components of an organization, whereby the collection, transfer, and presentation of information is optimized to meet the needs of the organization" (Long, 1989). Management control systems have become inseparable from modern management (Vithal, 1988), and are increasingly becoming essential in meeting the information needs of organizations. As such they can be used by organizations to obtain a competitive advantage or to keep up with the competition to survive or retain market share (Chandler and Holzer, 1988).

Initially, the information for management control meant accounting information (see Marginson, 1999; Otley, 1996, 1994) – a notion that still holds true for many present-day organizations. With the broader understanding that some managerial activities are difficult to measure or unable to be measured and controlled in accounting terms in recent years, alternative means of control such as action, results and personnel have been put forward by several academics and researchers in the area (see Marginson, 1999; Merchant, 1985). Particularly, in the case where the meaningful measurement of the effectiveness of activities cannot be achieved using the output generated, the value of accounting information tends to be very limited. Thus, the focus on the accounting information system becomes generalized into a focus on the management information system (Otley, 1996). Today almost every organization devotes a large amount of their resources to the area of management information systems. They are likely to include one or more of the following capabilities: report generation, information retrieval from queries, arithmetic calculations, quantitative functions; and modeling (Kole, 1979).

With the development of information technology, the use of computers in information management has been instrumental in many organizations. The use of computerized management information in managerial decision-making is a critical task. The role it plays in achieving organizational goals and objectives is an even more critical task. Business managers make decisions to solve problems and information is used in making their decisions. As Morrison and Laffin (1995) pointed out, "to facilitate those decisions, it is important that computerised management information systems (MIS) are used to full advantage". For example, today many accounting information systems are computerised. An accounting information system performs a firm's accounting applications. Such a system is supposed to provide information of a financial nature. Organizational managers should make sure that such a system is designed and operated to meet the organization's financial information requirements with the highest possible effectiveness and efficiency. A computerised system is expected to provide information efficiently and effectively.

The introduction of powerful technological tools has often led companies to focus their attention on technology – called hard aspects – and to neglect managerial practices and human behaviour – called soft aspects. Consequently, insufficient attention is given to the organizational impact of information systems (Serafeimidis and Smithson, 2000). Recently, many authors have underlined the importance of analyzing soft aspects such as performance measurement practices and human behaviour (Claver et al., 2001; Haag et al., 2002). Nonetheless, assessing an information system is recognised as a complex activity and, at least up to now, the models applied to assess MIS are still mainly based on cost benefit analysis, evaluation as experiments and user satisfaction (Stone, 1990).

Corporate Culture and Management Style

Corporate culture is defined as the deepest level of basic assumptions and beliefs that are shared by members of an organization (Schein, 1985) and considered to be one of the most stable and inertial factors in an organization. Consequently, changes inculture are often described as complex and part of a long process. Management style is defined as the practices adopted by leaders in decision making, management of information, relationships, motivation and managing subordinates (Burton and Obel, 1998). Management style influences the level of delegation, the approach and time required to make decisions and the control of activities. Moreover, management style is considered to be one of the key aspects to understanding organizational culture (Cameron and Quinn, 1999; Pheysey, 1993). Different frameworks have been developed to study organizational culture and management style. A recent empirical study was carried out by Bititci et al. (2006) on the relationship between performance measurement, organizational culture and management styles. These authors adopted a classification based on Harrison's (1987) and Hofstede's (1980) categorization of culture with corresponding management styles.

Corporate culture consists of shared values and belief systems held by the organizations and their actors (Dawson, 1996; Ouchi, 1979). For example, according to Dawson (1996, p. 141), "the term 'culture' in organizational analysis refers to 'shared values and beliefs" which are seen to characterise particular organizations". Corporate culture as an element of the management control system represents relationships and interactions among the human actors of the organization derived mainly from beliefs, values, morals, customs, and knowledge. Corporate culture can thus be applied in understanding organizations and their members' behaviour.

The term "culture" as it is used today has developed slowly over the last century (Dearstone, 1989, p. 12). Simply, corporate culture is about what organizational members are allowed to do and what is forbidden. Thus, culture is something that can create improved organizational efficiency and effectiveness through organizational participants. Therefore, the culture of an organization can be considered a guiding perspective that constrains the actions of

organizational members and directs towards accepted behaviour. Hofstede (1990) described how people develop mental programs, which create patterned ways of thinking, feeling and action. As such, organizational managers can manipulate the behaviour of organizational members in the way they consider desired.

Corporate culture as a component of management control consists of beliefs and attitudes of employees and customers as reflected by organizational policies or top management's practices, the dominant values and norms such as product quality, behaviour patterns such as rituals and language and climate factors such as interaction between managers and subordinates and so on. In the given framework, the relationships between the core management control package and corporate culture are two-way because once created, they have an impact on the way values are subsequently improved. This means that corporate culture is regarded as something manageable, although it can be considered as created through the passage of the organization. In this regard, Johnson and Gill (1993, p. 104) pointed out: Founders establish organizational culture to a crucial degree, but, it is argued, what we see at this stage is culture being created rather than consciously managed – even though leaders inevitably play a key part in the formative process. It is believed that the of dimension corporate culture has a profound influence on the organizational management control system. The organization's core management control package should be compatible with the organizational culture (Flamholtz, 1983). The dimensions of organizational culture influence the behaviour of organizational actors. "Once the desired culture has been defined, the remaining elements of the organizational control system [. . .] help transmit and reinforce the entity's culture throughout the organization to govern strategic and operational decisions and actions" (Flamholtz, 1983, p. 159).

Organizational Structure

Another important element of the overall management control system is the organizational structure. As with Dawson (1996, p. 110) organization "structure is a social creation of rules, roles and relationships which at best facilitates effective co-ordination and control, as far as corporate governors are concerned". Thus, organizational structure is considered a means of co-ordination and control through which organizational actors' behavior can be directed towards organizational effectiveness. As Trompenaars (1985, p. 93) stated: organization "structure is a product of human interaction, which, in turn, is a product of structure". Thus, organizational structure is considered a means of co-ordination and control through which organizational actors' behaviour can be directed towards organizational goal achievement. Organizational structure is very often used in analyzing organizations, and a variety of organizational structures can be found in the literature depending upon the type of the organization. This variety can be accounted for by the various positions scholars take in their conceptualization of social reality in general, and of human organizations in particular (Trompenaars, 1985, p. 93). In general terms, "the structure of a group of people such as an organization, or a society is the pattern of their relationships with each other and the way their various roles, powers, laws, etc are arranged" (Sinclair, 1994, p. 1451; original emphasis). Thus, any structure can be considered a whole consisting of parts. As Gutman (1955, p. 7) explained (cited by Trompenaars, 1985, p. 94), "what is common to all structures is (the) fact that their components have a meaningful relationship to the whole either by virtue of their arrangement which produces in the whole certain properties or makes it useful for certain purposes, or by virtue of the role that the parts play in the function of the whole" (original emphasis). The type of meaningfulness of the relationship between the elements and between the elements and the wholedepends on the type of system of which they are a part (Trompenaars, 1985, p. 94).

Organizational Performance

The traditional management accounting literature advocates the use of organizational performance measures in evaluating managerial performance. Many writers (e.g. Anthony, 1965; Merchant, 1998) argue that organizational performance measures communicate financial objectives, provide an overall summary of performance, do not require top management involvement in operating decisions taken at business units, can play a diagnostic role in

deciding whether or not to continue with current strategies and do not require additional costs in order to prepare them since they are already available for external financial reporting purposes.

Although the traditional management accounting literature advocates the use of organizational performance measure many writers attribute many problems to use of organizational performance measures. Eccles and Pyburn (1992) argue that organizational performance measures are 'lagging indicators' since they determine the outcomes of management's actions after a time period. Therefore, it is difficult to establish a relationship between managers' action and the report financial result.

Organizational performance can be measured by many criteria. In general, the literature suggests that organizational performance is commonly measured in terms of effectiveness, efficiency, growth and productivity (Kim Man, 2009). Montanari, Morgan and Bracker (1990) suggested that organizational effectiveness may be measured in terms of financial measures, operational measures as well as behavioural measures.

Most executives agree that there is ***no magic formula***……or ***one right measure***…….for evaluating business performance. Therefore, In an effort to capture the essence of business performance, many companies are creating new performance measurement systems that include a broad range of financial and nonfinancial measures.(Bonnie P. Stivers et al 1998).

Small and Medium Enterprises.

Small and medium-sized enterprises (SME's) play a significant role in the business system of both developed and developing economics (United Nation, 1993). In nearly every country, they play a significant role in providing employment opportunities and supporting large-scale manufacturing firm (Gunasekaran et al. 2000). SME's are critical to almost every national and local economy because of their potential to grow larger (Duan & Kinman, 2000). In the developing countries, SME(s) account for nearly 80-95 percent of the total number of enterprises (Abdullah, 1999; Heymans, 2000; Martin, 2002). Within the European Community small businesses contitute at least 95 % of all enterprises (Storey, 1994). The same applies to developed countries (Randall, 2002). As observed by Randall (2002) in Australia,over a 15 year period from 1983/84 to 1998/99, small business had an annual growth rate of 3.7% compared with the growth rate of 2.6 percent of other business. In most European countries and in North America, SME(s) began increasing their relative importance as of the mid-1970s (Loveman and Sengenberger 1991; Acs and Audretsch 1993). SME(s) accounted for one-fifth of manufacturing sales in the USA in 1976, but the small firm share of sales had risen to over one-quarter by 1986 (Acs and Audretsch 1990).

Definition of SME's : *it has no publicity-traded securities, the owner have undiversified personal portfolio, limited liability is absent or ineffective, first generation owner are entrepreneurial and prone to risk taking, incomplete management team, the business experiences the high cost of market and institutional imperfection, relationships with stakeholder are less formal. And it has a high degree of flexibility in designing compensation schemes* (Ojala, 2002). *Small business is a business in which there is no public negotiability of common stock and that owner must personally guarantee any existing or any planned financing* (Osteryoung and Newman, 1993).

In Indonesia, definition of SME's (Jan Husada, 2006) : ***Micro entreprises*** are business units with maximum net assets of 200 million rupiahs excluding properties of business or have 1-4 labor force. ***Small entreprises*** are entreprises that have maximum assets of 200 million rupiahs excluding properties or are entreprises that have maximum annual selling of 1 billion rupiahs or have 5-19 labor forces. ***Middle entreprises*** have assets range from 20 million to 10 billion rupiahs excluding land and building, with 20-99 labor forces. ***Big enterprises*** have more assets values and more number of labor forces than middle entreprises.

In Indonesia (2002) , the number of SME(s) was 41,4 million business units in Indonesia, of that number, 23,7 million were micro business of farming sector. SME(s) in Indonesia contributes 20 % of total non-oil and natural gas exports.(Business News 16 Desember 2004). In 2003, numbers of business units in Indonesia are dominated by SME(s),99.8%. Big business and BUMN (state-owned corporation) are only 0.2% of all business units that contribute 2/3 of GDP and absorb 33% of labor forces. Of 39 million units SME(s) registered in SME Ministry, only 1 million are small enterprises, 70 thousand are cooperation and 55 thousand are medium enterprises, the rest are micro enterprises. (Business News 1 April 2004)

Management Control System and Performance

Kennedy and Affleck-Graves (2001) show how the implementation of Activity Based Costing systems has a positive effect on performance. These authors compare two matched samples composed by 37 British companies. Those companies that implemented cost systems significantly achieved a 27% higher performance than those without this system. Bright, Davies, Downs and Sweeting (1992) find a significant relationship between the development of new cost techniques and the improvement of product performance. Chenhall and Langfield-Smith (1998b), on a sample of 140 Australian manufacturing companies, find evidence on the positive relationship between MCS use and company performance. Adler, Everett and Waldron (2000) show, after analyzing 165 manufacturing companies of New Zealand, that MCS positively influences product performance. Finally, McMahon and Davies (1994), state a positive correlation between amplitude and frequency of accounting information elaborated by the company and the net profit per employee.

CONCLUSION

In the context of Indonesia (South Sulawesi Province), the research findings described in this paper suggest that the use of MCS seem to have only e few positive effect on small firm's financial performance. The external environment did not influence small firm's financial performance. The pursued strategy seems to drive small firm's profitability and growth in net sales. The small firms do use a wide range of MCS practices, information and by using a more diversified management team seems to increase the use of MCS practices and information.

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